

Coordinated Bulk IT Purchases Achieves Savings for Computer Replacement

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Texas Department of Information Resources

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Executive Summary

The Texas Department of Information Resources (DIR) leverages the state's purchasing power to negotiate competitive discounts on information and communications technology products and services. Used by state and local government, public education, other public entities in Texas, as well as public entities outside the state, DIR's streamlined cooperative purchasing program allows customer agencies to purchase through pre-negotiated contracts that meet state procurement requirements. Every dollar participants save on goods and services through this program is a dollar that can be redirected to agencies' mission-critical services such as education or health care.

The cooperative purchasing program offers customer agencies a combination of discounted pricing, convenience, expedited processing, options across multiple vendors and resellers, and opportunities to purchase from Historically Underutilized Businesses (HUBs). The value of these contracts can sometimes be further enhanced when agencies come together to buy a large quantity of like items during a designated timeframe.

In accordance with Article IX, Rider 9.04 in the [General Appropriations Act \(83R\)](#), DIR coordinated a computer bulk purchase to

- assess and calculate cost savings by combining multiple agencies' desktop and laptop computer replacement needs,
- determine whether agencies could consolidate computer technical specifications in order to establish a single configuration standard, and
- attempt to implement a schedule to accommodate agencies' purchasing cycle periods.

The goal of the Rider was to maximize cost savings by leveraging computer replacement volume to reduce equipment costs while providing options to meet individual agency technology requirements. The bulk purchase effort, implemented through two events, realized this goal, and participating agencies saved approximately \$4.5 million.

DIR surveyed Rider-identified agencies to understand their needs and facilitated the procurement process for both agencies and vendors. DIR staff then used their technology contracting experience to negotiate pricing and enhancement options for participating agencies. This level of negotiation was an integral part of the bulk purchase procurement process. The Texas Department of Criminal Justice (TDCJ) purchased approximately 90 percent of the computers in the first of two bulk purchasing opportunities. By using TDCJ-established standard configurations for desktops and laptops, DIR was able to leverage TDCJ's volume and offer similarly configured computers to its customers at significantly discounted prices. The final negotiated price allowed some agencies to purchase greater-than-expected volumes to better meet business needs. DIR also accommodated agencies' need for specific requirements by working with vendors to offer a menu of add-ons and upgrades.

The experience confirmed that understanding the factors that enable vendors to reduce prices, and aligning a purchasing plan to vendors' supply chain management, can result in a successful bulk purchase and savings for the state. When purchases are less standardized or there is too little volume to merit price reductions, a traditional approach to bulk purchasing is not possible. Additionally,

allowing agencies to add enhancements to a standard base model via a menu list increases chances of lowering costs while fulfilling agency-specific technology requirements.

Background

Legislation

Article IX, Rider 9.04, “Information Technology Replacement,” in the [General Appropriations Act \(83R\)](#) states that when appropriate, agencies and institutions of higher education shall participate in hardware and software bulk purchasing facilitated by the Texas Department of Information Resources:

“(c) Out of funds appropriated elsewhere in this Act, to the agencies listed below for personal computer replacement initiatives, including laptops and desktops, all information technology computer replacement shall be coordinated with the Department of Information Resources in accordance with Chapters 2054 and 2157 of the Government Code to achieve additional cost savings through a coordinated bulk purchasing effort. Agencies and institutions of higher education receiving an appropriation by this Act for information technology computer replacement initiatives not listed below, may also coordinate with DIR through a coordinated bulk purchasing effort.”

To assess and determine whether or not agencies would be able to combine technology standards with one standard configuration each for desktops and laptops, DIR collaborated with the 14 customer agencies listed in the Rider, collecting information based on their specific computer replacement needs and identifying technical specifications and quantities. These agencies were

- Texas Historical Commission
- State Office of Risk Management
- Department of Aging and Disability Services
- Office of Court Administration
- Texas Department of Criminal Justice
- Texas Board of Pardons and Paroles
- Texas Department of Agriculture
- Texas Parks and Wildlife Department
- Railroad Commission
- Texas Department of Insurance
- Texas Medical Board
- Texas State Board of Pharmacy
- Executive Council of Physical Therapy and Occupational Therapy Examiners
- Texas State Board of Examiners of Psychologists

The standard configurations specified the processor, RAM (memory), hard drive, optical drive, network card, monitor, and video and sound components determined to meet agencies’ computing needs.

Implementation

Through the collaboration effort, DIR realized two immediate issues potentially limiting agency participation: scheduling and leasing agreements.

To accommodate each agency’s schedule for a computer replacement purchase, DIR realized a need for more than one bulk purchase event. Some of the constraints contributing to this included agency

coordination, schedules for computer replacement, and release of funding to execute a purchase. To accommodate agencies' schedules, DIR planned two bulk purchasing events.

DIR began coordinating a bulk purchase in August 2013 for agencies that had an immediate need to replace equipment. This resulted in a fall 2013 bulk purchase event, with plans to conduct a second bulk purchase at a later date.

Agencies that had previously established alternative methods of acquiring information technology (IT) equipment through leasing (no permanent ownership) or managed services (services through which a state agency transfers its responsibilities to a vendor to manage its personal computing needs, including all necessary hardware, software, and technology services) were excluded from participating due to their existing contractual commitments. Early termination or change in scope to their lease or managed service agreements limited these agencies' participation because of the potential of increasing their costs.

Throughout the bulk purchasing initiative, DIR communicated with agencies through several methods. These included

- sending letters to executive directors of candidate agencies
- presenting to the State Agency Coordinating Committee
- including information in DIR's "News for State Agencies" customer newsletter (1,000+ addresses, primarily including purchasers, business managers, and other state agency roles)
- publishing to the Texas Information Resources Managers email distribution list
- announcing through DIR's ITSOURCING email list

Based on the desktop and laptop requirements collected from the agencies, DIR used existing cooperative contracts for computer hardware that

- met agencies' infrastructure needs and technical specifications,
- gave opportunities to use Historically Underutilized Business (HUB) vendors, thus supporting agencies' ability to meet HUB goals, and
- provided the overall best value cost on the computer equipment purchase.

Using these contracts, DIR aggregated purchasing requirements and negotiated with vendors.

DIR supplied the various sets of configurations to the manufacturers to obtain incremental pricing on each of the desktops and laptops to assist in establishing a best value computer standard. In addition to establishing standard desktop and laptop models, DIR also received pricing for value-added, service-related components such as computer imaging (loading and configuring the operating system, applications, drivers, and settings before delivery), asset tagging and reporting, installation, and extended warranties to accommodate agencies' customization needs. Agencies received all of the pricing detail to assess which configuration to select for their procurement.

Through this process, the Texas Department of Criminal Justice (TDCJ), which was planning to replace a substantial number of computers, determined that its computer replacement would consist of one standard configuration each for desktops and laptops. This enabled DIR to further

negotiate with manufacturers on pricing and provide all DIR customers with a standard desktop and laptop configuration for the fall 2013 purchasing event.

When DIR performed a second coordinated bulk purchase in spring 2014, DIR invited all eligible customers to participate in the second bulk purchase with the specific intent of increasing the demand volume for generating bulk savings. Actual participation was more limited than the first bulk purchase effort, although the second bulk purchase still included the same options for individually prescribed and selected technical specifications.

Accomplishments

The bulk purchase initiative enabled the state to leverage multiple agencies' purchase volume because agencies agreed to standard models. The discounted pricing allowed DIR customers to purchase higher volumes and added enhancements to better meet business needs. This initiative streamlined the procurement process for both agencies and vendors.

DIR leveraged customer volume to negotiate competitive pricing for standard computer models

In discussions with the 14 agencies listed in the Rider, DIR confirmed that TDCJ's purchases would account for approximately 90 percent of the total bulk purchase quantity. TDCJ developed one standard configuration for desktops and laptops. Once the standards were finalized, DIR negotiated with vendors to enable all of the participating agencies to leverage the negotiated price for the standard models. Establishing specific standard configurations enabled participating agencies to obtain competitive pricing beyond discounts already available to DIR customers through DIR cooperative contracts. Most agencies would not have been able to achieve such a significant discount based on their own limited quantities.

Competitive pricing enabled customers to purchase greater than expected volumes to better meet their business needs

Agencies were able to maximize their computer replacement purchases by acquiring more systems than originally estimated due to the low cost. Limiting technology replacement due to the costs for computer replacements can lead to extending the desktop or laptop life cycle beyond recommended terms. Providing agencies with competitive pricing on standard configurations can opportunity for an end-of-life computer refresh that may not otherwise have occurred due to budget constraints.

DIR negotiations made enhancements available to customers at a lower price

Participating agencies were able to upgrade specifications and features on selected models due to the low base prices of the standard desktops and laptops. This delivered some flexibility on the standard desktop and laptop models, and included the ability to downgrade options from the configuration. For example, the Texas Parks and Wildlife Department (TPWD) did not have a requirement to replace monitors on some of their desktops. Therefore, TPWD was able to reduce their costs by not including a monitor option. In addition to selecting a standard configuration, offering a menu-style approach for add-ons and upgrades allowed agencies some customization, ensured they could meet their technical requirements, and still benefit from the reduced pricing.

Streamline procurement process for both agencies and vendors

The coordination of the bulk purchase provided DIR with valuable insight into the specific detail and planning of agency computer replacement needs. Through the agencies' participation, DIR's technology contracting experience provided a value-added service by facilitating the negotiation for all of the agencies' requirements, an integral part of this bulk purchase procurement process. At the same time, vendors also worked with DIR as a single point of contact, in contrast to working with each individual agency.

Considerations

Planning

Understanding the vendor business side to maximize the bulk purchase became a key finding during this initiative. Aligning the purchase with the vendors' supply side of manufacturing through forecasting, standardization, scheduling, logistics, and delivery enables vendors to pinpoint factors that can be harnessed to drive down costs for the state.

It is also important to plan and schedule with the agency in advance of their computer replacement needs to keep agencies from becoming encumbered by purchasing timeframes that conflict with their computer replacement schedule.

Bulk purchasing is also affected by existing contractual agreements that must be taken into consideration. One agency listed in the Rider was not able to participate in the bulk purchase because it had a term lease in place for managed services (services through which a state agency transfers its responsibilities to a vendor to manage its personal computing needs, including all necessary hardware, software, and technology services). This decreased the available aggregate volume.

Standardization

Each agency has a different mission and different technology needs; therefore, a standard computer configuration may not be an appropriate consideration for an agency. Without a definitive single standard, however, coordinating agencies' diverse needs through a bulk purchase with vendors can be challenging. Deviations from a standard configuration are not consistent with a bulk purchase methodology. A true bulk purchase can be achieved by narrowing the specifications to create a base system standard using low-, mid-, and high-end desktop and laptop models. While DIR worked with agencies to advocate for the value of obtaining the standard, some selected non-standard models due to necessary technical requirements. DIR coordinated the purchases, but was unable to obtain significant additional savings on the non-standard models.

Participation

Another factor that affects a successful bulk purchase is sufficient customer participation. The lower participation for the second bulk purchase may have been related to the success of the first bulk purchase satisfying demand, or to differing IT procurement priorities for agencies. Future opportunities for savings may be better served on an annual basis.

Bulk IT Purchase Order Summary

Establishing specific standard configurations enabled participating agencies to obtain competitive pricing beyond discounts already available to DIR customers through DIR cooperative contracts. Agencies provided DIR with copies of purchase orders submitted through the bulk purchase process to document actual savings. These figures were used to calculate total quantity, total spend, and total cost savings provided in [Appendix – Total Calculated Cost Savings](#).

Seven agencies participated in the first bulk purchase:

- Texas Historical Commission
- State Office of Risk Management
- Texas Department of Criminal Justice
- Texas Board of Pardons and Paroles
- Texas Parks and Wildlife Department
- Texas Medical Board
- Texas State Board of Pharmacy

Five agencies participated in the second bulk purchase:

- Texas Department of Agriculture
- Railroad Commission
- Texas Department of Insurance
- Texas Medical Board
- Workforce Solutions Deep East Texas (voluntary participant)

The following table shows the combined results of the FY 2014 bulk purchase efforts:

NO.	STATE AGENCY	CONFIGURATION	QTY: DESKTOPS	QTY: LAPTOPS	COST SAVINGS
1	Texas Historical Commission	Standard	23	5	\$ 11,514
2	State Office of Risk Management	Standard	130	None reported	47,840
3/4	Texas Department of Criminal Justice, Board of Pardons and Paroles (Housed at TDCJ)	Standard*	8,935	620	3,599,395
5	Texas Parks and Wildlife Department	Standard** and Non-Standard	435	373	273,7923
6	Texas Medical Board	Non-Standard	7	12	10,037
7	Texas State Board of Pharmacy	Standard	18	6	10,284
8	Texas Department of Agriculture	Non-Standard	145	150	216,465
9	Railroad Commission	Non-Standard	215	None reported	109,669
10	Texas Department of Insurance	Non-Standard	None reported	385	194,040
11	Work Force Solutions Deep East Texas	Non-Standard	101	None reported	17,149
Total Cost Savings					\$ 4,490,186

NOTE: *Selected the standard model desktops and laptops, but also paid \$7 more per machine to obtain asset reporting service. **Selected a number of standard model desktops, but paid \$27 less per machine for no-monitor option.

Number of **desktops** purchased

- Standard model: 9,110
- Non-standard model(s): 899

Number of **laptops** purchased

- Standard model: 631
- Non-standard model(s): 920

Conclusion

The fall 2013 bulk purchase demonstrated the benefit of leveraging a technology standard as a method to achieve significant price savings for desktop and laptop computers. DIR's technology contracting experience provided a single point of contact for consolidated, informed, and efficient negotiations. At the same time, vendors worked with DIR as a single point of contact in contrast to working with each individual agency.

A menu-style approach for enhancements gave agencies options and ensured that they could meet necessary technical requirements while still benefitting from the reduced pricing. However, as shown with the second bulk purchase in spring 2014, without a single desktop and laptop standard purchased at a significant volume, it is difficult to achieve a true "bulk purchase." It is important to note that establishing a single common standard for all agencies is unlikely given the differing missions and operational needs of many agencies. However, establishing a defined menu of limited standard configurations based on most common worker roles may produce sufficient volume, particularly if agencies replacement or refresh cycles can be aligned for the common functions.

Understanding the factors that enable vendors to reduce prices, and mapping agencies' needs to vendors' supply chain management process, can further strengthen the prospect of a successful bulk purchase outcome.

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Appendix: Total Calculated Cost Savings

The table below shows calculated cost savings for both the fall 2013 and spring 2014 bulk purchase events.

Desktops													
NO.	STATE AGENCY	QTY	MSRP/LIST	DIR PRICE	% DIR DISCOUNT	BULK PURCHASE PRICE	% BULK PURCHASE DISCOUNT	% DIFF: BULK PURCHASE VS DIR DISCOUNT	EXTENDED PRICE	MSRP/LIST	DISCOUNT FROM MSRP/LIST	COST SAVINGS (DISCOUNT FROM DIR PRICE)	
1	Texas Historical Commission	23	\$ 1,244	\$ 1,075	14%	\$ 707	43%	30%	\$ 16,261	\$ 28,614	\$ 12,353	\$ 8,464	
2	State Office of Risk Management	130	1,244	1,075	14	707	43	30	91,910	161,733	69,823	47,840	
3/4	Texas Department of Criminal Justice; Board of Pardons and Paroles (Housed at TDCJ)	8935	1,244	1,075	14	714	43	29	6,379,590	11,116,034	4,736,444	3,225,535	
5	Texas Parks and Wildlife Department	403	1,152	991	14	734	36	22	295,802	464,405	168,603	103,571	
		4	1,116	959	14	680	39	25	2,720	4,463	1,743	1,116	
		28	1,011	869	14	664	34	20	18,598	28,317	9,720	5,734	
6	Texas Medical Board	2	1,869	1,606	14	1,094	41	27	2,188	3,737	1,549	1,024	
		5	1,398	1,202	14	799	43	29	3,996	6,990	2,994	2,014	
7	Board of Pharmacy	18	1,244	1,075	14	707	43	30	12,726	22,394	9,668	6,624	
8	Texas Department of Agriculture	145	1,738	1,495	14	936	46	32	135,735	252,010	116,276	80,994	
9	Railroad Commission	215	1,417	1,091	23	581	59	36	124,915	304,655	179,740	109,669	
10	Texas Department of Insurance												
11	Work Force Solutions Deep East Texas	99	969	833	14	670	31	17	66,370	95,945	29,575	16,143	
		2	1,654	1,422	14	919	44	30	1,839	3,308	1,469	1,006	
										Total Desktop Cost Savings		\$ 3,609,735	
Laptops													
NO.	STATE AGENCY	QTY	MSRP/LIST	DIR PRICE	% DIR DISCOUNT	% BULK PURCHASE PRICE	BULK PURCHASE DISCOUNT	% DIFF: BULK PURCHASE VS DIR DISCOUNT	EXTENDED PRICE	MSRP/LIST	DISCOUNT FROM MSRP/LIST	COST SAVINGS (DISC. FROM DIR PRICE)	
1	Texas Historical Commission	5	\$ 1,723	\$ 1,475	14%	\$865	50%	35%	\$ 4,325	\$ 8,615	\$ 4,290	\$ 3,050	
2	State Office of Risk Management												
3/4	Texas Department of Criminal Justice; Board of Pardons and Paroles (Housed at TDCJ)	620	1,723	1,475	14	872	49	35	540,640	1,068,260	527,620	373,860	
5	Texas Parks and Wildlife Department	119	1,771	1,523	14	984	44	30	117,078	210,749	93,671	64,159	
		254	1,511	1,299	14	908	40	26	230,734	383,766	153,032	99,212	
6	Texas Medical Board	12	1,877	1,614	14	1,031	45	31	12,372	22,524	10,152	6,999	
7	Board of Pharmacy	6	1,723	1,475	14	865	50	35	5,190	10,338	5,148	3,660	
8	Texas Department of Agriculture	150	2,649	2,278	14	1,375	48	34	206,250	397,350	191,100	135,471	
9	Railroad Commission												
10	Department of Insurance	300	2,047	1,679	18	1,371	33	15	411,444	614,100	202,656	92,118	
		85	3,653	2,995	18	1,796	51	33	152,692	310,505	157,813	101,922	
11	Work Force Solutions Deep East Texas												
Total Laptop Cost Savings											\$880,451		
											Total Cost Savings		\$4,490,186